Guardian Capital Group Limited

Annual Report 1975

Financial Highlights

December 31st:	1968	1969	1970	1971	1972	1973	1974	1975
Value of Managed Assets ($ millions)								
Pension fund portfolios	$ 4.6	$ 4.8	$ 6.5	$11.9	$ 35.6	$ 74.6	$ 82.3	$111.5
Mutual fund and private client portfolios	48.8	48.1	34.0	37.8	128.7	97.3	68.8	76.0
Total	53.4	52.9	40.5	49.7	164.3	171.9	151.1	187.5
Total per Guardian share outstanding	$74.20	$57.50	$36.20	$45.70	$122.00	$107.00	$ 94.03	$135.9
Value of Owned Portfolio Assets ($ millions)								
Gdn. Ventures Limited	–	1.5	4.2	4.6	$ 5.5	$ 4.8	$ 2.9	3.1
Guardian Growth Financial Services Limited (market value)	–	–	–	–	0.5	2.6	2.7	2.8
Other tangible net assets	0.5	0.8	0.5	0.9	0.8	0.9	1.0	0.3
Total Tangible Net Assets (excluding the value of the earning power of the portfolio management subsidiaries)	$ 0.5	$ 2.3	$ 4.7	$ 5.5	6.8	8.3	6.6	6.2
Total per Guardian share outstanding	$ 0.70	$ 2.50	$ 4.33	$ 5.06	$ 5.06	$ 5.16	$ 4.10	$ 4.50
Revenues and Earnings								
Gross Revenues	$1,302,524	$ 672,024	$ 502,888	$1,217,384	$1,760,749*	$1,843,125*	$1,879,377*	$1,704,897*
Operating Earnings	959,810	432,110	134,965	689,767	749,968	562,875	711,028	428,936
Net Gain (Loss) on Investments	–	–	(71,350)	–	(98,132)	260,211	314,015	(102,472)
Pre-tax Earnings	959,810	432,110	63,615	689,767	651,836	823,086	1,025,043	326,464
Net Earnings	457,310	211,110	(17,755)	337,767	263,616*	505,018*	601,916*	61,446*
Net Earnings per Guardian shares outstanding	$ 0.64	$ 0.24	($ 0.02)	$ 0.31	$ 0.22*	$ 0.32*	$ 0.37*	$ 0.04*
Year End shares	720,000	920,000	1,087,000	1,088,610	1,346,778	1,606,528	1,606,528	1,379,628

*Fully consolidated

To the Shareholders

The year 1975 was one of recovery in world financial markets. During 1975, also, the major world economies passed the trough of the recession and started on the path to recovery.

We expected to see better markets for financial securities in 1975 than had existed in 1974. We were therefore reducing cash reserves in equity portfolios and lengthening the term of bond portfolios in the latter part of 1974 and in early 1975. We did not, however, expect the U.S. stock market to be quite as strong as it in fact turned out to be in early 1975; as a result of this, our "free-to-roam" portfolios, though well up on the year, did not out-perform the relevant stock market averages, and thus did not permit us to earn performance bonuses from management of client portfolios. Pension fund portfolios, after a particularly good relative performance in 1974, held their own in 1975. This part of our business continues to grow significantly in size of assets managed.

Total managed assets grew from $151.1 million at end-1974 to $187.5 million at end-1975 – an increase of 24%. Pension fund portfolios now comprise about 55% of client assets under management.

The main features of the 1975 income statement were as follows:

1 An increase of 8% in basic fee revenues, which increase was more than offset by a reduction in performance bonuses and interest income earned.

2 A small increase in operating expenses, which increase was incurred almost entirely in the fourth quarter, and was in fact mainly non-recurring.

3 A resulting decline in operating profit from over $700,000 to $428,936.

4 A small net loss on security transactions in 1975, compared with net realized gains of over $300,000 in 1974. As discussed below, this loss was somewhat theoretical in that it arose in the repurchase of shares of Guardian Capital itself.

The combined effect of these trends was to reduce pre-tax earnings substantially. Income taxes payable did not fall proportionately, however, since the positive operating earnings were made in our money management activities, which therefore paid appropriate tax rates, while capital losses and write-downs were incurred in asset ownership subsidiaries which could not use these to offset the operating earnings elsewhere. In a future year, it is to be hoped that the tax rate will appear correspondingly low as capital gains will be able to be earned for some time without incurring any tax liability.

As we stated in our quarterly report written in mid-December, we decided in the fourth quarter of 1975 to phase-down Guardian's venture capital activities. To accomplish this, Guardian Capital purchased, in December, the 226,900 shares of itself held by two executive officers. The price paid for each of these shares was $3.00 cash plus assets with a deemed value in mid-December of $0.77, for a total price of $3.77 per share. These assets were shares of MDS Health Group, Digital Telephone Systems and Newmark Resources. In effect, the selling shareholders of Guardian were paid for their shares partly in terms of their pro-rata holding of those three companies. Since this transaction was agreed to in mid-December, when stock markets were relatively low, both the shares sold (MDS, DTS and Newmark) and the shares purchased (Guardian Capital) were conservatively valued. The apparent loss on securities transactions which appears in our 1975 income statement arises from this share purchase transaction. Normal portfolio transactions in 1975 resulted in a net gain of $60,000.

At year-end 1975, Guardian Capital had net portfolio assets (excluding the value of the money management business) of $6.2 million. Most of the company's portfolio at end-1975 was invested in publicly quoted securities. The last major non-quoted security, Digital Telephone Systems is expected to become a quoted security by mid-1976. The second major shareholder of DTS, a California company called Farinon Electric has made an offer to purchase our DTS shares. As a result of this offer, which has the full co-operation and agreement of the DTS management, we should own, in due course, publicly registered shares of Farinon. Farinon is a company with a good record of long-term growth and profitability. It has sales of about $40 million at the present time, and earns a high return on sales and invested capital. The company has nearly four million shares outstanding, and these trade quite actively on the U.S., over-the-counter market. In our view, the acquisition of DTS by Farinon is very beneficial for both companies, as well as for all DTS shareholders.

Since the end of 1975, the U.S. and Canadian stock markets have again been very strong; the value of your Company's owned portfolio assets has correspondingly increased, as has the value of all client portfolios.

Apart from our changed attitude to venture capital investing, Guardian Capital is continuing its other activities as before. The three-person team of Jim Cole, Rick Major and Kiki Delaney continues to be responsible for all pension fund and R.R.S.P. portfolios; the "free-to-roam" portfolios are the responsibility of John Bak, Peter Brieger and Elizabeth Fowle; Hunter Thompson has overall responsibility for our client fiduciary activities; the parent company's owned asset portfolio is being managed by the writer and by Gurston Rosenfeld and Peter Roode. This group continues to be interested in smaller companies, in special situations, and in merchant banking activities.

With a longer perspective, we can see that the period December 31st 1968 to December 31st 1974 was a bear market, interrupted by a not very broad counter-trend up market from mid-1970 to December 31st 1972. The following statistics may be of interest:

December 31st 1968 - 100	**Dec. 31 1968**	**June 30 1970**	**Dec 31 1972**	**Dec. 31 1974**	**Dec. 31 1975**
Narrow or Weighted NYSE Averages	100	70	112	65	87
Broad NYSE Averages	100	47	63	26	38
ASE Index	100	68	76	36	49
Broad ASE Average	100	31	31	12	16

It is apparent that the narrow or size-weighted U.S. averages conceal as much as they reveal; in fact, many stocks in the period December 1968 to December 1974 put in a 1929-1932 performance.

In 1975, broad U.S. averages did somewhat better than the narrow or size-weighted averages; in 1976 this relatively favourable performance has continued to date.

For fundamental as well as for technical reasons, it seems very probable that we are now in a period of time which will be more favourable to financial securities than was the period 1969-1974. This better period could even be quite prolonged.

We look back on a difficult period during which our company not only survived but grew; we now look forward to even better results in a hopefully more favourable environment.

On behalf of the Board,
Yours sincerely,

Norman Short

Guardian Capital Group Limited and Subsidiary Companies

Consolidated Balance Sheet

as at December 31, 1975

	1975	1974
Assets		
Investments (Notes 1 and 14) –		
Venture capital	**$ 1,943,142**	$ 3,060,233
Merchant banking	**1,497,749**	1,231,739
Associated company	**46,576**	43,222
Other	**63,184**	51,684
	3,550,651	4,386,878
Cash and short-term deposits	**3,080,748**	3,087,851
Receivables	**224,678**	460,091
Income taxes recoverable	**14,132**	–
Prepaid expenses	**29,656**	41,477
Fixed assets (Notes 1 and 2)	**119,396**	126,481
Deferred selling costs (Note 1)	**62,680**	90,930
Goodwill – at cost (Note 1)	**2,759,736**	2,759,736
	$ 9,841,677	$10,953,444
Liabilities		
Accounts payable and accrued expenses	**$ 149,552**	$ 142,368
Dividend payable	**–**	240,979
Balance due on purchase of capital stock (Note 4)	**174,713**	–
Income taxes –		
Currently payable	**–**	216,812
Deferred (Note 1)	**50,149**	66,949
Long-term debt (Note 3)	**140,000**	175,000
	514,414	842,108
Minority shareholders' interest in subsidiaries	**411,879**	401,985
Shareholders' Equity		
Capital stock (Notes 4, 5 and 6)		
Authorized – 3,000,000 shares without par value		
Issued and fully paid – 1,606,528 shares	**7,468,465**	7,468,465
Contributed surplus	**414,177**	414,177
Retained earnings	**1,888,155**	1,826,709
	9,770,797	9,709,351
Less: 226,900 shares owned by the Company (Note 4)	**855,413**	–
	8,915,384	9,709,351
	$ 9,841,677	$10,953,444

The accompanying notes are an integral part of this financial statement.

Signed on behalf of the board

Norman J. Short, *Director*
Hunter E. Thompson, *Director*

Guardian Capital Group Limited and Subsidiary Companies

Consolidated Statement of Earnings

for the year ended December 31, 1975

	1975	1974
Income		
Basic management fees (Note 1)	**$1,332,709**	$1,233,218
Supplementary management fees (Note 1)	**99,783**	261,510
Sales charges (net)	**31,258**	48,770
Interest and dividends	**241,147**	335,879
	1,704,897	1,879,377
Operating expenses	**1,275,961**	1,168,349
	428,936	711,028
Net gain (loss) on investments (Note 1)	**(102,472)**	314,015
	326,464	1,025,043
Provision for income taxes (Note 10)		
Current	**275,278**	450,485
Deferred	**(16,800)**	(9,126)
	258,478	441,359
	67,986	583,684
Equity in net earnings of associated company (Note 1)	**3,354**	19,729
	71,340	603,413
Minority interest	**9,894**	1,497
Net earnings for the year	**$ 61,446**	$ 601,916
Earnings per share (Note 7)	**4¢**	37¢

The accompanying notes are an integral part of this financial statement.

Consolidated Statement of Retained Earnings

for the year ended December 31, 1975

	1975	1974
Balance – Beginning of year	**$1,826,709**	$1,508,522
Net earnings for the year	**61,446**	601,916
	1,888,155	2,110,438
Dividends	–	240,979
Tax paid on undistributed income	–	42,750
	–	283,729
Balance – End of year	**$1,888,155**	$1,826,709

The accompanying notes are an integral part of this financial statement.

Consolidated Statement of Contributed Surplus

for the year ended December 31, 1975

	1975	1974
Balance – Beginning of year	**$ 414,177**	$ 413,257
Issue of subsidiary's share purchase warrants	–	920
Balance – End of year	**$ 414,177**	$ 414,177

The accompanying notes are an integral part of this financial statement.

Consolidated Statement of Changes in Net Assets

for the year ended December 31, 1975

	1975	1974
Net assets – Beginning of year	**$10,111,336**	$ 9,780,632
Increased by –		
Net earnings for the year	**61,446**	601,916
Minority interest in earnings	**9,894**	1,497
Issue of subsidiary's shares to minority shareholder	–	10,100
Issue of share purchase warrants	–	920
	71,340	614,433
Decreased by –		
Dividends	–	240,979
Tax paid on undistributed income	–	42,750
Acquisition of Company's shares	**855,413**	–
	855,413	283,729
	(784,073)	330,704
Net assets – End of year	**$ 9,327,263**	$10,111,336
Represented by –		
Shareholders' equity	**$ 8,915,384**	$ 9,709,351
Minority shareholders' interest in subsidiaries	**411,879**	401,985
	$ 9,327,263	$10,111,336

The accompanying notes are an integral part of this financial statement.

Guardian Capital Group Limited and Subsidiary Companies

Consolidated Statement of Merchant Banking Investments

as at December 31, 1975

	1975			1974		
	Number of Shares or Par Value	Average Cost Less Allowance For Losses	Market Value	Number of Shares or Par Value	Average Cost Less Allowance For Losses	Market Value
Quoted investments						
Gold						
Gold bullion (ounces)	–	$ –	$ –	2,000	$ 209,194	$ 363,800
Large companies						
Levi Strauss and Company	2,800	101,570	114,548	–	–	–
Scott and Fetzer Company	2,500	48,864	46,373	–	–	–
Warner Communications	4,700	101,125	84,793	–	–	–
Medium sized companies						
I.W.C. Communications	2,400	3,421	3,420	–	–	–
Interway Corporation	8,000	72,593	42,689	–	–	–
National Medical Enterprises "A"	17,600	169,993	131,929	7,300	85,389	32,541
Pan Continental Mining	10,000	12,198	111,800	10,000	12,198	38,140
Small companies						
Auric Resources	333,499	64,043	76,704	173,000	16,500	49,305
Bulora Corporation	63,300	63,300	31,650	72,000	72,000	97,920
Cultus Pacific	235,000	12,530	39,010	–	–	–
Newmark Resources	600,000	495,696	369,000	600,000	547,750	312,000
Ziebart Corporation	25,000	42,633	19,750	25,000	42,633	15,000
Other		7,783	8,233		46,075	42,100
		1,195,749	$1,079,899		1,031,739	$ 950,806
Unquoted investments						
Equity lending						
Global Communications –						
Interest Debentures (1.2% above prime) 15/01/83	$ 200,000	200,000		–	–	
Income Debentures 15/01/98	$ 2,000	2,000		–	–	
Ziebart Corporation – 9% Debentures 31/12/77	$ 100,000	100,000		$ 100,000	100,000	
Other		–			100,000	
		302,000			200,000	
Total merchant banking investments		1,497,749			1,231,739	
Cash and other net assets – Attributable to merchant banking operation		1,296,916			1,584,309	
Total merchant banking net assets		$2,794,665			$2,816,048	

The accompanying notes are an integral part of this financial statement.

Consolidated Statement of Venture Capital Investments

as at December 31, 1975

	1975			1974		
	Number of Shares or Par Value	Average Cost Less Allowance For Losses	Market Value	Number of Shares or Par Value	Average Cost Less Allowance For Losses	Market Value
Quoted investments						
MDS Health Group –						
Shares	173,139	$ 224,954	$ 408,821	433,703	$ 494,963	$ 607,184
Debentures – 10% 1975	–	–	–	$ 97,493	97,493	97,493*
Note – 31/03/85	–	–	–	–	62,500	62,500*
I.W.C. Communications	–	–	–	302,191	309,627	290,103
Keydata Corporation	20,333	163,748	71,166	20,333	163,748	42,801
		388,702	$ 479,987		1,128,331	$1,100,081
Unquoted investments						
Digital Telephone Systems (Note 14)	220,647	1,484,690		220,647	1,626,207	
Instinet –						
Shares	26,500	39,750		26,500	270,898	
Warrants	20,000	–		20,000	4,797	
Other		30,000			30,000	
		1,554,440			1,931,902	
Total venture capital investments		1,943,142			3,060,233	
Cash and other net assets – Attributable to venture capital operation		1,495,192			395,102	
Total venture capital net assets		$3,438,334			$3,455,335	

*Cost which approximates fair market value.

The accompanying notes are an integral part of this financial statement.

Guardian Capital Group Limited and Subsidiary Companies

Notes to Consolidated Financial Statements

for the year ended December 31, 1975

1 Summary of significant accounting policies

(a) *Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and all of its subsidiaries.

(b) *Associated Company*

The Company has used the equity method of accounting to reflect in its earnings its equity in the net earnings of a 50% owned company. This investment is carried on the balance sheet at cost plus the Company's share of the undistributed earnings since acquisition.

(c) *Investments*

The investments, except for the investment in the associated company referred to in Note 1(b), are recorded at average cost, less an allowance for losses. The allowance for losses relates to those investments which are considered to have declined in value and show no reasonable expectation of recovery.

The net gain or loss on investments shown on the earnings statement represents the realized gains and losses on investments sold and the provision for losses for the year.

(d) *Fixed Assets*

The majority of the furniture and equipment is being depreciated on the diminishing balance method at the rate of 20% per annum.

Leasehold improvements are being amortized on the straight line basis over the term of the lease.

(e) *Deferred Selling Costs*

The deferred selling costs represent the unamortized cost of prepaying obligations under long-term sales contracts. These costs are being amortized over the period which remained under these contracts at the time of their renegotiation.

(f) *Goodwill*

The excess of cost of shares in subsidiaries over the net book value of the assets acquired is carried in the accounts at cost until such time as its value is considered to be impaired.

(g) *Income Taxes*

The companies have deferred to future periods the income tax resulting from claiming deductions for tax purposes in excess of the amounts charged in the accounts. The deferred tax applies principally to the deferred selling costs referred to in 1(e).

(h) *Management Fees*

The Company and certain subsidiaries provide management and investment advisory services to mutual funds and investors on a contract basis in consideration for management fees.

Under some contracts the companies are entitled to earn supplementary fees if the managed portfolio outperforms certain stock market averages.

The income from fees is recognized in the accounts on a time basis over the periods of the contracts.

(i) *Foreign Exchange*

Purchases and sales of foreign investments and income and expenses have been converted to Canadian dollars at the rates of exchange prevailing on the respective dates of such transactions.

Short-term notes in foreign currencies held at the year end have been converted into Canadian dollars at the exchange rates prevailing at the balance sheet dates.

2 Fixed assets

	1975	1974
Furniture and equipment – at cost	**$ 168,136**	$ 158,999
Leasehold improvements - at cost	**72,904**	72,904
	241,040	231,903
Accumulated depreciation and amortization	**121,644**	105,422
	$ 119,396	$ 126,481

The depreciation and amortization expense for 1975 and 1974 was $16,222 and $16,257 respectively.

3 Long-term debt

The long-term debt consists of $140,000 7½% subordinated convertible debentures of a subsidiary company, Mutual Funds Management Corporation of Canada Limited, due January 10, 1978.

These debentures are secured by a floating charge on the assets of Mutual Funds Management Corporation of Canada Limited and are convertible at the holders' option into shares of Guardian Capital Group Limited on the basis of $9.20 per share or, if called for redemption by the company before the due date, on the basis of the lessor of $9.20 per share or 85% of the quoted market price per share at the date of conversion. The interest expense with respect to the debt was $13,954 and $16,824 in 1975 and 1974 respectively.

4 Acquisition of capital stock

During December, 1975 the Company entered into an agreement to acquire 226,900 of its own shares held by two employees (who were also officers and directors) for a total consideration of $855,413 (equivalent to $3.77 per share). The consideration consisted of:

Cash – Paid in December, 1975	$ 680,700
Investments – Held by subsidiary companies and transferred to the Company and paid over subsequent to the year end	174,713
	$ 855,413

5 Employee stock options

76,590 authorized but unissued shares of the Company's capital stock are reserved for allotment under the Company's employee stock option plan. As at December 31, 1975 options, exercisable at $5.00 per share, were outstanding on 33,250 and 20,000 shares expiring December 31, 1979 and December 31, 1982 respectively, of which options covering 49,353 shares were exercisable as of December 31, 1975, the remainder becoming exercisable over future years.

6 Share purchase warrants

As at December 31, 1975 97,280 authorized but unissued shares of the Company's capital stock were reserved for issuance upon the exercise of share purchase warrants as follows:

Number of warrants	Price per share	Exercisable on or before
20,000	$7.00	April 30, 1977
77,280	$8.00	December 31, 1982

7 Earnings per share

The earnings per share calculations are based on the weighted average number of shares outstanding during the year. Fully diluted earnings per share are not materially different from the basic earnings per share.

8 Long-term lease commitment

Minimum annual rentals, under a lease agreement which terminates on August 31, 1982, are approximately $54,000 for the years 1976 and 1977 and $57,000 for the years 1978 to 1982.

9 Losses available for income tax purposes

Gdn. Ventures Limited, a subsidiary, has unused accumulated non-capital losses for income tax purposes of approximately $156,000, the details of which are as follows:

Year incurred	Expires	Amount
1971	1976	$ 30,000
1972	1977	34,000
1973	1978	87,000
1974	1979	3,000
1975	1980	2,000
		$156,000

As at December 31, 1975 Gdn. Ventures Limited also had net capital losses of $253,000, which can be carried forward indefinitely against taxable capital gains.

10 Provision for income taxes

The 1975 provision for income taxes appears high in relation to the earnings of the companies. This disparity is partly attributable to the fact that net realized gains and net realized losses on investments were reported by different companies and therefore could not be offset for income tax purposes. In addition, the companies have provided in the accounts for losses on certain investments during 1975 which at December 31, 1975 were unrealized and accordingly were not allowed for income tax purposes in 1975.

11 Statutory information

The aggregate remuneration of directors and senior officers for the year ended December 31, 1975 was $361,819 (1974 – $262,333).

The amortization of deferred selling costs amounted to $28,250 (1974 – $30,520).

12 Contingent liability

A subsidiary company is a defendant in an action for damages of $300,000 arising out of an alleged breach of an investment management contract. On the basis of information provided by the company, legal counsel have advised that the company will probably succeed in the defence of this action. Accordingly, no liability is recorded in the financial statements.

13 Dividends

The Company is subject to dividend restrictions under provisions of the Federal Anti-Inflation Act and Regulations. Maximum dividends which may be paid during the twelve month period ending October 13, 1976 amount to 15¢ per share.

14 Subsequent event

Subsequent to December 31, 1975, Farinon Electric ("Farinon") offered to purchase all of the outstanding shares of Digital Telephone Systems Inc. ("D.T.S.") not already owned by it on the basis of .615 Farinon shares for each share of D.T.S. The Company's subsidiary, Gdn. Ventures Limited, has accepted the Farinon offer and will exchange its entire holding of D.T.S. shares for Farinon shares. Farinon also agreed to file a registration statement with the U.S. Securities and Exchange Commission ("S.E.C.") with respect to its shares to be issued under the offer so that Farinon shares will be freely tradeable. The exchange is expected to be completed in June or July of 1976, following acceptance by the S.E.C. of the registration statement. Farinon shares trade on the U.S. over the counter market.

Auditors' Report to the Shareholders of Guardian Capital Group Limited

We have examined the consolidated balance sheet and the consolidated statements of merchant banking investments and venture capital investments of Guardian Capital Group Limited and subsidiary companies as at December 31, 1975 and the consolidated statements of earnings, retained earnings, contributed surplus and changes in net assets for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their net assets for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Smith, Nixon & Co.
Chartered Accountants

Toronto, February 6, 1976

Guardian Capital Group Limited

48 Yonge Street, Toronto, Ontario M5E 1H3

Officers and Directors
James F. Cole, *Director*
Paul B. Helliwell, *Director*
Robert L. Miller, *Director*
Gurston Rosenfeld, *Director*
Norman J. Short, *President & Director*
Hunter E. Thompson, *Director*
Roger D. Wilson, *Director*
Peter E. Roode, *Secretary-Treasurer & Director*
Bernice Wade, *Assistant Secretary*

Registrar and Transfer Agent
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110 Yonge Street, Toronto, Ontario

Banker and Custodian of Securities
The Canadian Imperial Bank of Commerce
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